

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 NEA-09 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03

PA-01 USIA-06 PRS-01 /119 W
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R 191020Z MAR 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2720

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L ABU DHABI 0609

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJ: ABU DHABI OIL NEGOTIATIONS

1. SUMMARY: ABU DHABI HAS REACHED SUBSTANTIAL AGREEMENT WITH OWNERS OF OPERATING COMPANIES HERE ON PRICE AND PRODUCTION LEVELS FOR REMAINDER OF YEAR. THIS WILL PRODUCE CONSIDERABLY HIGHER PRO-
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DUCTION LEVELS AT LOWER PRICES. AGREEMENT IS ON BASIS OF CONTINU-

ANCE OF 60/40 OWNERSHIP ARRANGEMENT AT LEAST THROUGH 1975. SPECIAL DISCOUNTS HAVE APPARENTLY BEEN AGREED TO ON BUY-BACK OIL PURCHASED BY OFF-SHORE PRODUCER ADMA TO TAKE INTO ACCOUNT ITS MUCH HIGHER OPERATING COSTS AND INVESTMENT CAPITAL REQUIREMENTS. AGREEMENT WILL PUT DAYLIGHT BETWEEN ABU DHABI AND SOME OF ITS OPEC NEIGHBORS, NOTABLY KUWAIT AND SAUDI ARABIA WHO ARE MOVING TOWARD COMPLETE NATIONALIZATION OF OIL INDUSTRY. POLITICAL TENSIONS THIS WILL

CAUSE SEEN, HOWEVER, TO HAVE BEEN FULLY CONSIDERED BY ABU DHABI POLICY MAKERS IN REACHING THEIR DECISION, WHICH FOR ONE ZEATS INTERESTS OF ABU DHABI AHEAD OF SLAVISH ADHERENCE TO OPEC SOLIDARITY. END OF SUMMARY.

2. LAST TWO DAYS WE HAVE BEEN ABLE TO SEE BOTH MINISTER OF PETROLEUM OTAIBA AND HIS UNDERSECRETARY ABDULLAH ISMAIL TO QUERY THEM ABOUT STATUS OF NEGOTIATIONS BETWEEN ABU DHABI AND OPERATING COMPANIES ON PRICE AND PRODUCTION LEVELS. TWO OFFICIALS ALSO GAVE US THEIR IMPRESSIONS OF ALGERS SUMMIT WHICH IS SUBJECT OF SEPTEL.

3. ACCORDING OTAIBA AND ISMAIL, AGREEMENT WAS INITIALED BY THE TWO SIDES IN PARIS FOR 40 CENTS REDUCTION IN SULPHUR PREMIUM PLUS REDUCTION IN GRAVITY DIFFERENTIAL OF FROM 6 CENTS TO 3 CENTS PER API ABOVE 34 API. THIS AMOUNTS TO FOLLOWING REDUCTIONS IN POSTED PRICES FOR ABU DHABI CRUDES: MURBAN 54 CENTS; ZAKIM 58 CENTS; UM SHAI 24 CENTS. IN RETURN, ACCORDING TO OTAIBA, COMPANIES HAVE AGREED TO INCREASE LIFTINGS TO LEVEL THAT WOULD PRODUCE DAILY AVERAGE FOR WHOLE YEAR OF 1.5 MBD. (ONE MILLION B/D FOR ADPC AND 500,000 B/D FOR ADMA).

4. PRICE REDUCTIONS ARE TO BE RETROACTIVE TO FIRST OF YEAR. COMPANIES HAVE BEEN ASSURED THAT 60/40 OWNERSHIP SPLIT WILL CONTINUE AT LEAST THROUGH 1975. ABU DHABI CONFERENCE ROYALTY AND TAX RATES (20 AND 85 PERCENT) WILL BE APPLIED TO COMPANIES 40 PERCENT OF PRODUCTION, AND COMPANIES HAVE AGREED TO BUY BACK EQUAL AMOUNT OF GOVERNMENT OIL AT 93 PERCENT OF NEW POSTED PRICES. REMAINING 20 PERCENT OF PRODUCTION WILL BE OFFERED FOR SALE AT 93 PERCENT OF POSTING BY ADNOC, AND OWNERS HAVE AGREED TO BUY BACK AT DISCOUNT ANY OF THIS OIL ADNOC CANNOT SELL. AMOUNT OF DISCOUNT IS ONLY REMAINING POINT IN AGREEMENT TO BE SETTLED, ACCORDING TO ISMAIL. DELEGATION FROM OWNING CONFIDENTIAL

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COMPANIES IS EXPECTED SHORTLY IN ABU DHABI TO NEGOTIATE THIS POINT.

5. OTAIBA APPARENTLY SOUGHT, BUT COULD NOT GET, FIRM GUARANTEE FOR OWNERS THAT THEY WOULD LIFT 1.5 MBD AT THESE NEW PRICES. ISMAIL DESCRIBED COMPANY UNDERTAKING IN INITIALED AGREEMENT AS OF "BEST ENDEAVOR" VARIETY. I COMMENTED TO BOTH OFFICIALS THAT I HAD HEARD DUBIOUS NOISES FROM INDUSTRY SOURCES THAT OWNERS WOULD BE WILLING TO TAKE THIS QUANTITY, UNLESS PRICE REDUCTION

WERE GREATER. OTAIBA SAID GOVERNMENT WOULD EXPECT COMPANIES TO MAKE REAL EFFORT TO MEET THEIR "UNDERTAKING" BUT WOULD BE UNDERSTANDING IF WORLD MARKET CONDITIONS MADE THIS IMPOSSIBLE. OTAIBA SAID THAT BESIDES COMPANIES RECOGNIZED THEY HAD TO "PAY A LITTLE EXTRA" TO GET BACK INTO GOVERNMENT'S GOOD GRACES AFTER THEIR SHABBY PERFORMANCE EARLIER THIS YEAR.

6. ISMAIL, ON OTHER HAND, ATTRIBUTED BREAKTHROUGH IN NETOTIATIONS TO REALISTIC ABU DHABI DECISION THAT IT WOULD HAVE TO TAKE INTO ACCOUNT SPECIAL CIRCUMSTANCES OF ABU DHABI'S OFF-SHORE PRODUCER ADMA. TO MAINTAIN PRODUCTION IN ITS RESERVOIRS ADMA NEEDS TO INVEST \$460 MILLION THIS YEAR IN WATER INJECTION AND NEW DRILLING AND EVEN LARGER AMOUNT NEXT. WITH PROFIT SQUEEZE BROUGHT ABOUT BY ABU DHABI CONFERENCE TAX AND ROYALTY HIKES, OWNING COMPANIES WERE SIMPLY UNWILLING TO PUT UP THEIR 40 PER CENT OF THIS KIND OF MONEY. ISMAIL SAID ONCE PRINCIPLE WAS ACCEPTED THAT RELIEF WOULD HAVE TO BE GIVEN ADMA, ABU DHABI DEPT. OF PETROLEUM EXPLORED VARIOUS ALTERNATIVES, INCLUDING NO-INTEREST LOAN TO COMPANIES TO COVER THEIR SHARE OF CAPITAL EXPENDITURES, AND LOWERING ABU DHABI CONFERENCE ROYALTY AND TAX RATES FOR ADMA. (LATTER WAS REJECTED BECAUSE OF STRAINS IT WOULD CAUSE WITH OTHER OPEC MEMBERS, ACCORDING TO ISMAIL.) METHOD FINALLY AGREED TO WAS TO GIVE ADMA "INCENTIVE DISCOUNT" ON ITS BUY-BACK OIL. ISMAIL NOTED THAT THIS DEVICE HAD RECEIVED OPEC BLESSING AT DECEMBER VIENNA MEETINGS. ISMAIL SAID HE WAS NOT YET IN

POSITION TO GIVE US FIGURES FOR THESE DISCOUNTS, BUT THEY WERE SUBSTANTIAL, AND ADMA WAS SATISFIED.

7. COMMENT: UNDERSECRETARY ISMAIL WAS IN EXPANSIVE AND HAPPY MOOD. AFTER FRUSTRATING YEAR IN WHICH HE HAS SEEN HIS TECHNICAL ADVICE CONSTANTLY OVERRULED BY POLITICAL CONSIDERATIONS, SHAIKH ZAYID CONFIDENTIAL

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HAS ENDORSED HIS RECOMMENDATIONS FOR SETTLEMENT WITH OIL COMPANIES, INCLUDING PRINCIPLE THAT IT IS IN ABU DHABI'S INTEREST TO KEEP COMPANIES IN EQUITY POSITION HERE. ISMAIL CAUTIONED THAT ALL THIS COULD ONCE AGAIN GO OUT THE WINDOW IF STRONG POLITICAL PRESSURES WERE FELT AT THE TOP, BUT HE WAS HOPEFUL THAT AGREEMENT WOULD IN FACT HOLD UP. IF SO IT HAS ENTAILED DECISION BY SHAIKH ZAYID THAT REFLECTS VICTORY OF CONSIDERABLE PROPORTIONS OF ENLIGHTENED SELF-INTEREST OVER OPEC POLITICS. WE IMAGINE DECLINING GOVERNMENT REVENUES, AND FACT THAT NO ONE ELSE IN OPEC WOULD COME TO RESCUE IF ABU DHABI QUIETLY WENT BANKRUPT FOR THE CAUSE OF OPEC SOLIDARITY, WERE FACTORS THAT HELPED ZAYID SEE THE LIGHT. ISMAIL CLAIMED THAT ZAYID HAS ENDORSED HIS RECOMMENDATION THAT EVEN AT END OF 1975 ABU DHABI NOT MOVE TO TAKE OVER COMPANIES 100 PER CENT. ISMAIL RECOGNIZES THAT HOLDING TO 60/40 FORMULA MIGHT NOT BE TENABLE IF MAJORITY OF PRODUCERS GO THE 100 PERCENT ROUTE, BUT HIS RECOMMENDATION (WHICH HE SAYS

SHAIKH ZAYID HAS APPROVED) IS THAT IF MOVEMENT IS DEEMED NECESSARY
IT BE TO INCREASE GOVERNMENT OWNERSHIP TO 75 OR 80 PER CENT AND THEN
TO HOLD PERMANENTLY AT THIS. HIS OWN VIEW IS THAT BOTH SAUDI ARABIA
AND KUWAIT HAVE MADE A MISTAKE AND WILL COME TO REGRET IT.
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